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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C.

File in the  
FCC File

In the Matter of )

Amendment of the Commission's Rules  
to Establish New Personal Communications  
Services, Narrowband PCS )

Implementation of Section 309(j)  
of the Communications Act --  
Competitive Bidding )

GEN Docket No. 90-314

ET Docket No. 92-100

PP Docket No. 93-253

To: The Commission

**COMMENTS OF THE MORGAN STANLEY PARTNERSHIPS**

The Morgan Stanley Partnerships<sup>1/</sup> hereby submit these Comments on the Commission's Further Notice of Proposed Rulemaking ("FNPRM") in the above-captioned proceeding.<sup>2/</sup>

<sup>1/</sup> The Morgan Stanley Partnerships comprise the following limited partnership funds: The Morgan Stanley Leveraged Equity Fund II, L.P., Morgan Stanley Capital Partners III, L.P., Morgan Stanley Capital Investors, L.P., MSCP 892 Investors, L.P., Morgan Stanley Venture Capital Fund L.P., Morgan Stanley Venture Capital Fund II, L.P., Morgan Stanley Capital Investors, L.P., Morgan Stanley Venture Investors, L.P., Morgan Stanley Venture Capital Fund II, C.V.

<sup>2/</sup> Amendment of the Commission's Rules to Establish New Personal Communications Services, Narrowband PCS, and Implementation of Section 309(j) of the Communications Act -- Competitive Bidding, GEN Docket No. 90-314, ET Docket No. 92-100, PP Docket No. 93-253, FCC 97-140 (released April 23, 1997).

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The Morgan Stanley Partnerships are limited partnerships that hold significant telecommunications investments, including in the wireless telecommunications sector. The general partner of each Partnership, representing approximately 10% of each Partnership's capital, is an affiliate of Morgan Stanley, Dean Witter, Discover & Co., and the limited partners, representing the remaining 90% of capital, are third party investors (typically institutions such as pension funds).

The Morgan Stanley Partnerships hold a significant share of the equity of PageMart Wireless, Inc., which has been granted several narrowband PCS licenses. PageMart Wireless, Inc. completed its initial public offering in June 1996, in part on the basis of its PCS licenses and their perceived value. PageMart Wireless equity is traded on the NASDAQ National Market System under the symbol "PMWI." As a result of the Partnerships' holdings in PageMart, the Partnerships have a strong interest in the instant proceeding.<sup>3/</sup>

Morgan Stanley, Dean Witter, Discover & Co. is one of the world's preeminent investment banking and financial services companies. It has been active in advising wireless and other communications companies with respect to finance-related matters and in assisting these companies in raising substantial debt and equity capital. The firm has been particularly involved in financings for emerging

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<sup>3/</sup> The Morgan Stanley Partnerships were active in assisting the Commission in developing attribution rules for competitive bidding in the narrowband PCS service. The Partnerships filed petitions for reconsideration and clarification in this docket, which were granted by the Commission in March 1995. Amendment of the Commission's Rules to Establish New Narrowband Personal Communications Services, 10 FCC Rcd 7893 (1995) (Memorandum Opinion and Order).

competitive telecommunications providers (such as those that participated in the narrowband and broadband PCS auctions).

In the FNPRM, the Commission requested comment on a range of proposals regarding modifications to the existing spectrum allocation plan for narrowband PCS, and regarding the channelization and licensing of the one MHz of reserve narrowband PCS spectrum. As investors with a significant stake in the wireless telecommunications industry, the Morgan Stanley Partnerships are concerned about the potential impact of both sets of proposals on the market valuation of publicly traded companies in the paging and narrowband PCS industry. These proposals would also affect the ability of current licensees to attract capital for the build-out of their systems, reduce the amount likely to be realized from future spectrum auctions, and create damaging uncertainty for licensees and investors as well as for the public.

Today, publicly traded paging companies are faced with a difficult market environment and declining stock prices. These difficulties stem primarily from investor concerns over the high capital needs of paging companies and concern among certain investors regarding prospects for generating acceptable returns on such capital. On average, the price of a share of stock in a publicly-traded paging company has declined by 62% over the past two years. In this context, the Commission's proposal to alter dramatically the narrowband PCS landscape -- by changing the existing spectrum allocation plan to include new nationwide licenses, and by licensing an additional one MHz of reserve spectrum -- would clearly be destabilizing.

The two MHz of narrowband PCS spectrum that have already been channelized have not yet been fully licensed, and the existing license holders are in the first stages of meeting the Commission's construction and minimum coverage requirements. The Commission's proposal to release a significant amount of new spectrum onto the market -- before there is demonstrated demand for new licenses -- must inevitably have the effect of diminishing the value of existing licenses, and thus the valuations of present license holders, thereby further depressing paging company stock prices, with a concomitant adverse effect on the ability of present license holders to raise sufficient cost-effective capital to meet construction and coverage requirements.<sup>4/</sup>

None of these results are in the best interests of consumers of PCS services or providers of capital. The prudent course of action for the Commission at this time would be to allow the existing and soon-to-be license holders of the two MHz of already allocated narrowband PCS spectrum to construct their systems, and for the Commission to observe levels of competition, license holders' ability to raise capital, and investor reaction to system performance, before adding to the already abundant supply of narrowband PCS spectrum that is available for licensing.

The Commission's proposal has another infirmity: an auction in the near future of new narrowband PCS spectrum would be unlikely to raise the substantial sums that could be realized if the auction were held at a later date -- when

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<sup>4/</sup> According to the investment bankers at Morgan Stanley, Dean Witter, Discover & Co. who track these matters carefully, those narrowband PCS auction winners that represent "pure plays" on narrowband PCS (i.e., they do not have paging or other businesses) have been entirely unable to raise public equity or debt to support the build-out of their systems.

the actual value of licenses, in the hands of operators of fully constructed systems who publish periodic, ongoing financial results, will be evident in the marketplace. Participants in the Commission's auctions rely on financing from investors such as the Morgan Stanley Partnerships, as well as public debt and equity, for their license bids and for the build-out of the systems; these financings are generally supported by the estimated value of the licenses that are being auctioned and of the systems that they support. The likelihood of substantial financing being available now for new rounds of narrowband PCS auctions -- particularly in light of the poor financial performance paging companies have recently demonstrated -- appears to the Morgan Stanley Partnerships to be virtually nil.<sup>5/</sup>

Yet another problem with the FCC's proposal arises out of the expectations previously created. Three years ago, the investors that participated in the regional and national auctions for narrowband PCS licenses relied on the Commission's designation of service areas <sup>6/</sup> when they determined the value of the licenses supporting their investments. They entered into the 1994 auctions for nationwide and regional narrowband PCS licenses with the understanding that those auctions provided the only opportunity for the purchase of nationwide and regional

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<sup>5/</sup> The Commission has had recent, unfortunate experience with auctions that did not raise the anticipated amounts, in part because financing was not available. See FCC Public Notice, "Winning Bidder in the Auction of 128 Wireless Communications Service Licenses," DA 97-886 (April 28, 1997). See also FCC Public Notice, "Wireless Telecommunications Bureau Seeks Comment on Broadband PCS (and F Block Installment Payment Issues)," DA 97-679 (June 2, 1997).

<sup>6/</sup> Implementation of Section 309(j) of the Communications Act -- Competitive Bidding, 9 FCC Rcd 2952 (1994) (Third Report and Order).

licenses. Investors developed a value for these licenses based in part on their exclusivity and based on the expectation that the Commission would uphold the rules that it had developed. Thus, bids in the previous auctions for nationwide and regional licenses reflected the Commission's then-effective plan to allocate the remaining spectrum in smaller service areas and to retain the additional one MHz of spectrum in reserve.

Certainty is important to the financial community. Uncertainty creates risk for investors and reduces the value of things subject to the uncertainty. When rules that are integral to an investment decision are in flux, investors cannot develop reliable estimates to facilitate the purchase of telecommunications licenses. In the face of such regulatory uncertainty, estimates of the value of a license reflect the risk that future regulatory decisionmaking will reduce the value of the licenses.

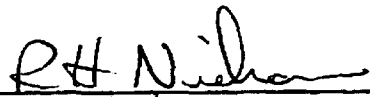
Any newly introduced uncertainty about the supply of to-be-auctioned licenses would affect future demand for telecommunications sector investments. Investors would have a much greater reluctance in the future to place reliance on FCC regulations. The Commission's proposals would foster this type of uncertainty, not only with respect to the supply of narrowband PCS licenses, but also with respect to FCC licenses in general.

In order to promote the continued development of narrowband PCS services, and to preserve the ability of paging operators to continue to upgrade their

services, to meet the demands of existing and new customers, and to compete effectively with other CMRS services, the Morgan Stanley Partnerships urge the Commission to reconsider the proposals in the FNPRM in light of the foregoing discussion.

Respectfully submitted,

THE MORGAN STANLEY PARTNERSHIPS

By:   
Name: *Robert H. Niehaus*  
Title: *Vice Chairman*

Date: June 18, 1997